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MOBILIZATION OF FINANCIAL RESOURCES FOR UNIDO PROGRAMMES (INCLUDING THE INDUSTRIAL DEVELOPMENT FUND)

Funds mobilization: the next challenge in the transformation process

Note by the Director-General

Introduction

1. The Industrial Development Board at its twenty-first session requested the Director-General to attach high priority to activities of the UNIDO Secretariat aimed at mobilizing extrabudgetary resources for high-priority projects (IDB.21/Dec.5). The Board furthermore requested the Director-General to submit a report to its next session suggesting ways and means of generating funds for the Organization for the purpose of implementing technical cooperation programmes, including the revitalization of the Industrial Development Fund (IDB.21/Dec.10).

2. The present report is submitted to the General Conference in view of the vital importance of resource mobilization for the integrated programmes and other technical cooperation activities that have been developed in response to the Business Plan adopted by Member States. The document also constitutes a further Secretariat contribution to the discussion of this fundamental issue in line with Board decision IDB.19/Dec.2, paragraph (h) of which emphasizes collective dialogue between the Member States and the Secretariat on programmatic issues and initiatives taken to implement the Business Plan.

Executive summary

3. Within the framework of its programmatic transformation UNIDO has launched 30 integrated programmes, which are at present (30 September 1999) at various levels of development. The total programme portfolio amounts to approximately $210 million to be disbursed over a period of four years. A further 16 integrated programmes are being formulated during the last quarter of 1999, bringing the total portfolio to approximately $260 million.

4. A major effort was undertaken by the Organization to start field-level activities and to attract the extra-budgetary resources necessary for programme implementation. These efforts were undertaken in partnership with recipient Governments, UNDP and in close dialogue with donor Governments. As a result, some $42 million has been allocated or has reached a very advanced stage of negotiation. These resources constitute a mix of UNIDO's own programmable resources under the Regular Programme for Technical Cooperation, the Industrial Development Decade for Africa and the general convertible pool of the Industrial Development Fund (16.9 per cent), contributions by donor Governments

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(58.3 per cent), self-financing contributions by recipient Governments (9.3 per cent), UNDP (11.6 per cent) and other contributions from development finance institutions, United Nations funds and the private sector (3.9 per cent). It should be noted that a part of the programmes were funded through previous pledges to UNIDO for which donor approval could now be obtained.

5. Despite the progress made and the major effort undertaken by the Secretariat together with its partners, additional and continued support is required from Member States to provide the Organization with the means to prove the impact and relevance of its technical cooperation activities and to achieve for the next biennium an annual funding target of $90 million, including integrated programmes and single module projects but excluding Montreal Protocol. In this connection, the present paper focuses also on structural limitations of the present funding base and suggests action needed to achieve more adequate, efficient, predictable and programmable financing for the Organization's technical cooperation activities.

I. INITIAL RESULTS OF THE PROGRAMMATIC TRANSFORMATION

6. The experience acquired and the preliminary results achieved under the ongoing programming phase, as summarized in the annex, already show that, once translated into field activities, the new programmatic approach drastically enhances UNIDO's impact and relevance. The new approach is considered the only possible path for the Organization to align itself with a reformed, more cohesive United Nations system and with the policies of donor countries.[1]

7. Funding requirements should be seen in the perspective of the programmatic transformation of UNIDO, which required that major investments be made in the development of packages of integrated services, as called for by the Business Plan. Such investments relate to the staff time inputs for planning, conceptualizing and formulating the programmes and the development of new processes for the implementation of the programmes based on a multidisciplinary team approach. Programme guidelines have been developed and performance indicators have been established to assess the impact of the programmes on manufacturing value added, productivity, total output, exports and employment (IDB.21/24). These regular budget-funded investments will make sense only if the integrated programmes actually materialize through appropriate voluntary contributions.

8. In addition, UNIDO has continued to develop projects for those countries not covered by the integrated programmes based on new service modules formulated under the programmatic phase of the transformation process.

9. The total portfolio of 30 integrated programmes amounts to approximately $210 million. A further 16 integrated programmes are being formulated during the last quarter of 1999, bringing the total portfolio to approximately $260 million phased for implementation over a period of four years. As at 30 September 1999, the Organization has been able to approve and/or is at an advanced stage of negotiations on funding for integrated programmes for a total amount of $42 million (of which $18.9 million is approved, $9 million is expected to be approved by the end of 1999 and $14 million to be approved in the first half of 2000). This figure includes the utilization of previous pledges for which donor approval could now be obtained. In addition, single module projects in countries not covered by integrated programmes have been funded for a total of $21.7 million. It should be noted that the above figures do not include Montreal Protocol projects.

10. Considering the completely new approach being followed by the Organization, it is difficult to provide clear-cut indications of the resources that UNIDO will actually be able to mobilize in the short and medium term. The experience acquired so far, however, already indicates some trends that can be used to set realistic funding targets for the Organization. Based on the above trends, an annual funding target for the Organization would be $90 million, including integrated programmes and single module projects but excluding Montreal Protocol.

11. The resources allocated to integrated programmes or for which there is a high likelihood of approval in the short term are apportioned as shown in table 1. Table 2 shows single module project approvals for countries outside the integrated programmes.

12. Figure 1 shows the approval trends and projected funding requirements.

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[1] See, for example, "Efforts and Policies of the Members of the Development Assistance Committee", *Development Co-operation*, 1998 Report, 1999 Edition. Organisation for Economic Cooperation and Development

Table 1. Integrated programmes—sources of funds
(percentage)

Fund source, including programme support costs *Fund source in percentage*	*Existing Approvals $18.9 million* %	*Anticipated Approvals $23 million* %	*Total Allocation $42 million* %
UNIDO seed money for the Regular Programme and the Industrial Development Decade for Africa/General Convertible Pool of the Industrial Development Fund	34.7	2.2	16.9
Contributions by donor countries (third party)	55.5	60.5	58.3
Self-financing and cost-sharing contributions (in cash) by recipient Governments		16.9	9.3
UNDP	9.8	13.0	11.6
Development finance institutions		5.9	3.2
Other		1.5	0.7
Total	100.0	100.0	100.0

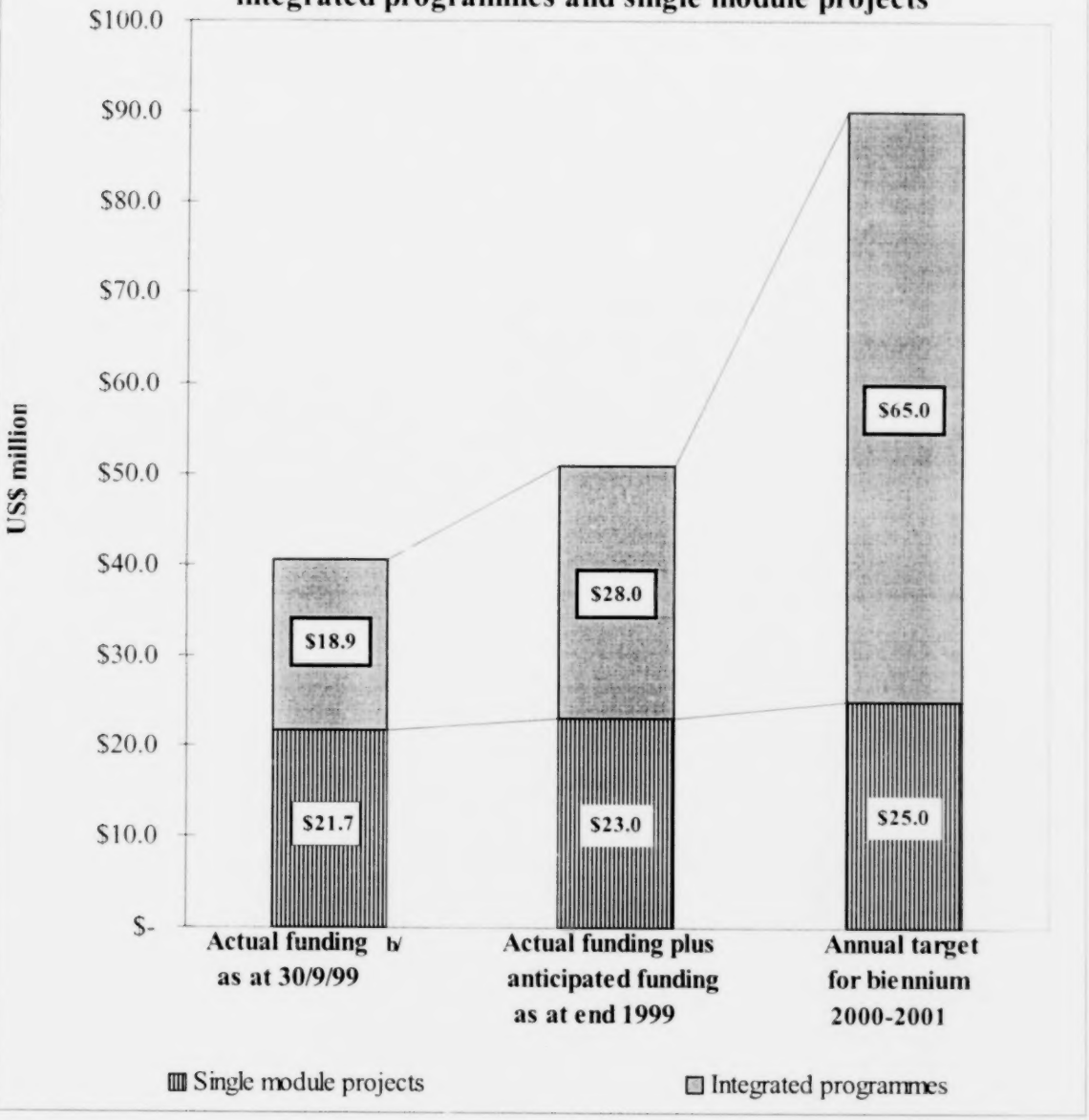
Table 2. Single module project approvals—sources of funds
(percentage)

Fund source, including programme support costs *Fund source in percentage*	*Existing Approvals $21.7 million* %
UNIDO seed money for the Regular Programme and the Industrial Development Decade for Africa	8.2
Contributions by donor countries (third party)	53.1
Self-financing and cost-sharing contributions (in cash) by recipient Governments	10.0
UNDP	23.7
Development finance institutions	0.0
Other	5.0
Total	100.0

The above percentages show that the bulk of contributions, both for the integrated programmes and for projects, is provided by donor countries as third party contributions (58% and 53% respectively). The percentages also show that progress has been made to diversify funding sources, notably through strong cooperation with UNDP and through self-financing or cost sharing contributions from recipient Governments.

Figure 1 a/

Approval trends and projected funding requirements for integrated programmes and single module projects



a/ Excludes approvals under Montreal Protocol.
Programme support costs are included in "approvals" and "funding requirements".

b/ Refers to project allotment documents issued as at 30 September 1999.

II. VOLUNTARY CONTRIBUTIONS: THE SHORTCOMINGS

13. The situation outlined above shows a positive trend. However, it is also clear that additional efforts will be required to create a stronger and more stable funding base for the benefit of recipient countries. In a spirit of partnership and joint responsibility for the successful finalization of UNIDO's transformation, it is the Director-General's duty to draw the attention of Member States to the main shortcomings of the existing funding structure. These shortcomings are summarized in paragraphs 14 to 21 below.

The Regular Programme for Technical Cooperation cannot be increased beyond 6 per cent of the regular budget

14. The Regular Programme for Technical Cooperation is limited by UNIDO's Constitution to 6 per cent of the regular budget. Considering the delayed payments of assessed contributions, Regular Programme funds can be fully released only towards the end of the biennium, thereby further limiting programming flexibility.

The level of freely programmable resources is extremely low

15. Apart from the very limited regular budget resources for technical cooperation, UNIDO has only some $1 million per year in freely programmable resources under the general-purpose convertible pool of the Industrial Development Fund. For this reason, responding to the demands of recipient countries cannot be as prompt and effective as UNIDO and recipient countries would find suitable. Seed money for programme preparation and co-funding, which are of key importance in mobilizing other resources, are extremely limited.

The level of voluntary contributions is insufficient to meet demand

16. The total amount of voluntary contributions by Member States (approximately $27 million per year) is insufficient to meet the growing demand for UNIDO services. The total amount is far below the Industrial Development Fund target set by Member States of $50 million for the Fund alone upon its establishment.

The number of major donors of voluntary contributions is limited

17. The bulk of voluntary contributions to the Industrial Development Fund and trust funds is provided by a limited number of major donor countries. Other donors that provide substantive contributions to other United Nations funds, programmes and other specialized agencies and that were actively involved in the development/ approval process of the UNIDO Business Plan have not yet decided to support the programmatic transformation through voluntary contributions.

Programme financing is difficult to achieve due to the special-purpose nature of most donor contributions

18. The integrated programme approach offers increased efficiency and cost-effectiveness through the synergy between programme components. To realize this synergy, it is essential that sufficient flexible funds be provided. Current funding is almost exclusively earmarked for specific components or projects, which may result in a loss of potential synergy if important programme components are not funded.

The approval process is lengthy and thus costly both for donors and UNIDO

19. Experience shows that the negotiation and approval process for special-purpose contributions averages from one to two years. However, rapid changes in the industrial sector necessitate updating and revision of programme and project documents every six to twelve months. Ways and means to shorten the approval process (such as an increasing share of freely-programmable voluntary contributions) need to be found to ensure programme relevance, cost-effectiveness and sustainability.

Resources tend to concentrate

20. Donors mainly allocate special-purpose contributions to a limited number of recipients and types of services.

A considerable portion of special-purpose contributions are earmarked for institutions in donor countries (e.g. Investment Promotion Services) versus country-related activities

21. While these types of contributions constitute important complementary and supplementary resources to country-related programmes, they cannot be used for financing of country-level integrated programmes entrusted to UNIDO by the Business Plan.

III. TOWARDS NEW TARGETS AND TYPES OF VOLUNTARY CONTRIBUTIONS

22. UNIDO has a three-tier approach to supporting countries in their industrial development:

- In the **long term** UNIDO aims at ensuring that, through adequate levels of industrialization, countries no longer need to depend on aid. UNIDO's integrated programmes will contribute to the mobilization of domestic resources, encourage private investment flows and the development of the private sector, all key elements of economic growth and employment.

- In the **medium term** UNIDO will play an active role in global funding-related initiatives such as the United Nations high-level intergovernmental forum on financing for development to be held in 2001. Furthermore, UNIDO is already active in country-level initiatives, such as the United Nations Development Assistance Framework and the World Bank Comprehensive Development Framework, as well as donor round tables and consultative groups.

- In the **short term**, and considering the funding weaknesses as well as the need to finalize the transformation process through country-level initiatives, it is recommended that all Member States—industrialized and developing countries alike—reconsider their policies for contributions to the Industrial Development Fund.

23. To facilitate the decision-making process with respect to the future financial support towards the Organization's technical cooperation activities, an overview of types of contributions and their respective advantages is provided in table 3.

Table 3. Types of resources and their respective advantages

Type of resources	Advantages
Fully programmable contributions (general-purpose segment of IDF)	• High speed of response • No additional administrative costs to donor for appraisal, negotiation and approval of the programme • Facilitate co-funding and inter-agency cooperation at field/project level • Strengthen full ownership by recipients (Development Assistance Committee (DAC) principles) • Enhance focus on UNIDO's core mandates and policies
Framework programmable contributions (Danish model: Free programming of IDF contribution based on priorities mutually agreed upon)	• High speed of response • High degree of flexibility for programming towards integrated programmes • Facilitate co-funding and inter-agency cooperation at field/project level • Cost savings for donors due to shorter negotiation process for overall umbrella contribution • Enhance focus on UNIDO's core mandates and policies • Permit targeting donors' broad geographical and thematic priorities
Special-purpose contributions to IDF or trust funds	• Allow contributions towards individual programme components and projects reflecting donors' geographical and thematic priorities • Enable access to single-purpose funds • Facilitate complementarily and cooperation with bilateral assistance • Allow donor to obtain domestic returns from multilateral spending • Facilitate programming of decentralized funds • Facilitate provision of tailor-made services to recipients and donors alike based on UNIDO expertise under the service modules • Allow economically more advanced countries to use this mechanism for enhanced South-South cooperation and as a tool for knowledge and experience sharing
Self-financing contributions to the Industrial Development Fund or trust funds	• Mobilize domestic resources for joint activities and demonstrate level of commitment
Funding for UNIDO-related institutions in donor countries (as special-purpose IDF contributions or trust funds)	• Fund important centres complementary to country-related programmes, part of overall infrastructure and networks for investment and technological development

IV. PROGRAMME REVIEW BY MEMBER STATES

24. A decision on future funding policies should be taken also in light of the need for a strong substantive dialogue with Member States. In fact, an improved funding base and the availability of programmable resources will allow for a reinvigorated, more substantive dialogue with Member States built upon the participatory approach successfully experienced during the development and approval of the Business Plan, as follows:

(a) Through the consideration of UNIDO's programmatic activities, Member States will play a key role in determining the priorities and areas of substantive focus of the Organization;

(b) As the Secretariat has to account for the use made of programme resources allocated for the implementation of integrated programmes, the governing bodies will constitute a forum for reporting and for feedback of lessons learned.

V. RECOMMENDED ACTION BY MEMBER STATES

25. In line with General Assembly resolution 53/192 of 15 December 1998, in support of the transformation process of UNIDO based on the Business Plan, and considering preliminary achievements as well as shortcomings in the present funding base, the Director-General proposes the following action:

(a) Member States are requested to take account of the information provided in document GC.8/21 concerning the unutilized balances of appropriations for the bienniums 1992-1993 and 1996-1997, and to consider the extent to which these amounts could be applied to accelerate implementation of the integrated programmes;

(b) All donors are urged to provide all or part of their voluntary contributions to the general-purpose programmable segment of the Industrial Development Fund. Such fully programmable contributions are a vital requirement for the implementation of the Business Plan via the integrated programmes. These contributions will be utilized mainly for preparatory activities and for co-funding central components of the programmes in close complementarity with the Regular Programme of Technical Cooperation and the Industrial Development Decade for Africa;

(c) As a manifestation of their support of the transformation process and of their solidarity with UNIDO and its mission, all developing countries and countries with economies in transition are urged to provide contributions to the general-purpose programmable segment of the Industrial Development Fund. Through a larger number of such contributions— including those of a small size—the overall funding level of these programmable resources can be increased substantially;

(d) In addition, or as a complement to fully programmable contributions, major donor countries, countries with economies in transition as well as the economically more advanced developing countries should consider following the example of Denmark and provide annual "framework contributions" programmable by UNIDO on the basis of mutually-agreed geographical and thematic priorities;

(e) In addition to their general-purpose contributions, major donor countries should consider increasing special-purpose contributions of a multilateral nature and should facilitate access to bilateral financial resources in order to ensure full funding of the integrated programmes. In this connection, participation of donor countries in UNIDO programming missions will be of importance to jointly develop activities of relevance for recipients;

(f) Major donors to the United Nations system that are not providing contributions to UNIDO should review their pledging policies vis-à-vis the Organization;

(g) Donor countries that are in the process of considering the provision of contributions for programme components already identified should ensure a speedy approval process to help UNIDO maintain the momentum of the programmes and achieve fast field-level impact;

(h) All donors in a position to do so should consider indicating their multi-year funding intentions with a view to improving the predictability of the funding base of the Organization;

(i) The economically more advanced developing countries and countries with economies in transition should consider providing contributions of an ECDC (economic cooperation among developing countries) nature which will facilitate cooperation based on their experience and expertise;

(j) Beneficiaries of integrated programmes should contribute to the cost of the programme through cost-sharing as an indication of their support to, ownership of and interest in the activities jointly developed. Such contributions should be provided on the basis of the

recipient's level of development, with a minimum of 10 per cent of programme cost;

(k) Those Member States that are also members of the European Union should actively support UNIDO's efforts to access funding or co-funding from the European Commission, along the lines of the support extended by the Commission to other specialized agencies, United Nations funds and programmes. Funding will be facilitated and constitute concrete follow-up action to the agreement between the United Nations and the European Community "on the principles applying to the financing or co-financing by the Community of programmes and projects administered by the United Nations" signed by the United Nations and the European Community in July 1999;

(l) Recipient countries should share with UNIDO the funds mobilization efforts and specifically assist in identifying and accessing funds available at the country level-particularly from UNDP, the World Bank and other development finance institutions. Official requests from the recipient country are a precondition for accessing funds from these institutions;

(m) Member States are also urged to support UNIDO efforts to access funding from the Global Environment Facility (GEF), in particular, in the field of climate change and for the programme components relating to rural energy development, energy efficiency and renewable energies formulated under the framework of the integrated programmes. Synergies with GEF will support efforts by GEF and its implementing agencies, in particular UNDP, to develop a larger pipeline of high-quality projects. UNIDO support will furthermore strengthen national capacities to identify, formulate and implement projects, in particular in the GEF focal area relating to climate change.

Annex

INITIAL RESULTS OF THE PROGRAMMATIC TRANSFORMATION

The advantages and experience gained of the new approach are:

Objectives	Advantages of the new methodology
Systemic vision of sustainable industrial development	The starting point for the integrated programme approach is a systemic vision of sustainable industrial development and the need to achieve a reasonable balance among economic, social and environmental considerations. This can best be achieved through a multidisciplinary approach combining the expertise of various UNIDO service modules.
Partnerships and support to locally-led efforts	The new methodology facilitates the development of demand-driven integrated programmes tailored to solve critical problems that constrain the achievement of the country's industrial objectives. The new approach focuses on result-oriented solutions derived from dialogue with and involvement of counterparts to ensure effective local ownership of the programmes developed.
Strengthened inter-agency cooperation and integrated efforts at field level	The new methodology is an indispensable tool for UNIDO's involvement in country-level programme initiatives by the United Nations system (United Nations Development Assistance Framework) and the World Bank (Comprehensive Development Framework), as well as for building up synergies with other external aid programmes.
Transparency and result orientation	Performance indicators have been developed as an essential element of the programming methodology. Impact indicators to monitor and assess results will be applied to all UNIDO programmes in order for UNIDO to be able to account for the use of programme resources.